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ABSTRACT

The typical working woman is thought to make 60% of a man's wage, despite increased job skills. Facts prove this perception incorrect. Lack of progress is an artifact of changing labor market characteristics associated with the rapid growth in the numbers of women in the labor market. Low skills, low wage female entrants tend to hold down the otherwise upward trend for women. Overall women now possess increased skills causing women's wages to grow 20% faster than men's wages. Instead of measuring wages of just female workers, the total female population should be measured. This shows substantial progress toward wage equity. This is due to the accumulation of labor market experience by women; a trend that will continue in the foreseeable future. Because of this optimistic projection for women, implementing comparable worth legislation is wrong. It will reduce employment and national income, and create more costly products. (APG)

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THE WAGE GAP AND COMPARABLE WORTH

James P. Smith

July 1985

Testimony given to invited members of the Senate Staff, Washington D.C., March 26, 1985.

This morning I am going to try to give you a different perspective on an old problem--the persistent wage gap between women and men. The central issue can be stated simply--Why do women still earn about 60 percent of what men earn even though women are gaining on men in education and job experience? Why has the wage gap stayed at 60 percent for decades according to virtually all government sources?

Whatever its accuracy, this belief in the constant wage gap for women has had a tremendous intellectual and political impact. Intellectually, the constant wage gap was viewed as a puzzle. Since it was inconsistent with conventional economic theories of how labor markets are supposed to work, economists said it just couldn't happen. Politically, the constant wage gap was seen as confirmation of a very pessimistic view of the labor market realities that women must face.

First the puzzle. Many economists argued that the tremendous increases in the number of women who work must have translated into more market skills for women. And as the job skills of women increased, their wages should have been rising and much faster than those of men. However, the constant wage gap of 60 percent suggests that this did not happen. That in a nutshell is the puzzle.

In the face of this apparently unchanging wage gap, it is also easy to see why many people are so pessimistic about the future of women's wages. If true, the constant wage gap suggests the image of an inflexible labor market that fails to reward women for their obviously increasing skill. It is not difficult to deepen this pessimism by imagining a future that will continue to maintain a rigid wage structure by gender. This rigidity persists, in spite of the even greater numbers

of women who work and the more committed career goals of these women. Indeed, in my opinion, such pessimism is an important reason why comparable worth legislation has moved to the forefront of the public policy debate.

The study we did at Rand provides an antidote to this pessimism. In the course of our study, the facts convinced me that the usual interpretation of the wage gap was flawed. We were able to resolve the puzzle and to demonstrate that there are grounds for considerable optimism about the future of women's wages. The constancy of women's relative wages at the 60 percent level turns out to be a myth. Women's wages have in fact risen in response to their expanded skills. Throughout the twentieth century, when properly interpreted, women's wages have been rising much faster than men's wages and will continue to do so into the foreseeable future.

Let me forego the technical details and tell you about the reasons for our conclusions about trends in women's wages. I'll divide them into three parts--those that concern the past, the future, and the present.

To understand our results for the past, it is important to distinguish between the female work force and the female population. The reason is that as the fraction of women working increases from 20 percent levels that prevailed in 1920 to those over 60 percent that exist today, the base on which the average wage of the workforce is calculated changes. If the new labor market entrants have less skill than the women who are already working, they will artificially lower the average wage of working women.

With this in mind, the first thing we did was to take a fresh look at the wage gap between working women and men. In doing so, we essentially verified the conventional wage statistics. In fact, we found that working women were worse off in 1980 than they were in 1920. In 1920, they were making 63 percent as much as working men compared to the 60 percent ratio that prevailed in 1980.

This fairly stagnant ratio would surely be bad news if the experience and education of working women had been increasing all that time relative to men. In fact, they have not. The assumption that working women have become increasingly skilled relative to men in recent decades is a false one. Compared to men, in the last thirty years working women, on average, lost a year of education and gained only half a year of market experience.

How could this be? The answer is simple. New entrants and reentrants into the female labor force have predominantly been women with relatively little labor market experience and lower than average education. These relatively low skill, low wage entrants have tended to hold down the average wage of all working women, disguising what would otherwise have been an upward trend in women's wages. Thus, our first finding is that it is no surprise that the wages of working women have remained constant relative to men. Because of these compositional changes, the stability in relative wages by sex among workers is consistent with the stability in their skills. In short, nothing new has happened to narrow the wage gap between men and women "workers" over the last sixty years.

But the story is quite different when we monitor trends for all women. As more women have entered the labor force, experience levels for the entire population of women taken together--working and nonworking-have been increasing. For example, the average 40-year-old woman in 1980 had five years work experience than her counterpart in 1930. The impression people have of a progressively more skilled female population is thus a correct one. However, the skills of the entire population of women should not be compared with the wages of the female workforce; they should be compared with the wages of the entire population of women. This we did.

We estimated that in 1920 the average earnings of all women were 43 percent of those of all men; in 1950, 48 percent; in 1980, 53 percent. Thus, across the sixty years between 1920 and 1980, women's wages grew 20 percent faster than men's wages.

Therefore, the correct historical record shows that there has been considerable improvement in the economic status of women. Moreover, this improvement was due largely to higher levels of the market skills women brought with them to the labor market.

Given this emphasis on skill, what does the Rand report have to say about discrimination and affirmative action? There is nothing in our report that denies the existence of labor market discrimination against women. Sex discrimination does play a role in explaining part of the wage gap, but less than what most proponents of comparable worth believe.

Turning to affirmative action, we do conclude that the overall impact of affirmative action on the average woman is quite small. However, there have been some winners and unfortunately some losers as well. Black women have been the primary beneficiaries, most likely because they allow firms to fill two quotas for the price of one. To a lesser extent, college educated white women gained as firms covered by affirmative action placed women in jobs where they have been previously quite scarce. On the other hand, covered firms also responded by reducing their employment of white women in traditionally female occupations, particularly clerical jobs. The net result was a wash with no significant effect on wages for the average working woman.

Now let's turn to the future. In our report we made projections of what the wages of women will be in the year 2000. The skills of the typical female worker will increase sharply relative to those of males by the year 2000. First, in contrast to past trends, women's education levels will increase faster than those of men, principally because women have been accelerating their rates of college attendance.

More important, the average job experience of the typical working woman will also increase significantly. By the year 2000, a 40-year-old working woman will have five more years of work experience than her 40-year-old counterpart had in 1980.

Taking into account these changes in women's education and job experience, we project the wages of the average working woman will rise at least 15 percent faster than men's over the next twenty years narrowing the wage gap to 74 percent in the year 2000. Let me emphasize that this is a very conservative estimate. As the labor market careers

of women became more like those of men, women will invest more in acquiring skills that will make them more competitive and the quality of women's work experience will improve. Thus, in our view, in the year 2000, a wage ratio that is in excess of 80 percent is a very safe bet.

With these projections as background, I now turn to the present. Trends over the last few years confirm that we have already begun to enter into this relatively optimistic future we foresee for women. Between 1980 and 1983, there was a dramatic increase in women's wages, even among working women. In 1983, women's wages had risen to 64 percent of men's, from 60 percent three years earlier, the largest and swiftest gain we have witnessed in this century. Most important, these recent wage gains have been most pronounced among younger women. For example, in 1980, women aged 20-24 earned 78 percent as much as men of that age. By 1983, this had risen to 86 percent.

These recent wage gains are consistent with our view that women's market skills are the primary shaper of their economic status. In contrast to the past, the work experience of working women is now increasing rapidly; so is its education which has risen faster than the male workforce. One explanation that does not fit the recent period is that affirmative action pressures produced this recent improvement. It is generally agreed that enforcement powers of EEOC and OFCCP declined during the last four years.

This revisionist history of women's past labor market gains and my optimistic portrait of the future that I have outlined for you this morning does not mean that government public policy has no positive role to play. Title VII and the Equal Pay Act should be vigorously enforced and in my view enforcement resources should shift towards hiring

decisions at the middle and lower end of the job spectrum. This, to ensure that equally qualified men and women have access to similar opportunities throughout the entire job market and not simply within the more dramatic and visible professional and managerial ranks.

But it is also my judgment that comparable worth is the wrong remedy. Comparable worth is bad science and bad public policy. It will impede the proper allocative function prices play in labor markets, thereby reducing employment and national income.

The signals that wages provide in inducing workers to move into occupations that are now scarce and out of occupations where skills are abundant will be blurred.

In its place, comparable worth will substitute a very subjective and non scientific job evaluation procedure. History is full of examples of the interpersonal conflicts and dissention that inevitably arise when we politicize decisions that are more effectively dealt with by the price system.

Comparable worth will create losers as well as winners among the very people it aims to help. Consumers, men and women both, will be worse off in the face of more costly products. While some women in traditionally female occupations will have their wages raised, other women in these jobs will be worse off. They will end up either unemployed or be forced into less desirable occupations.

Finally, comparable worth will be very expensive. Let me illustrate with the example of the San Jose experience from my home state of California. It is a good example because proponents cite San Jose and its roughly $1.4 million-per-year price tag as proof that the cost of comparable worth need not be large. But San Jose only affected

700 women, with wage increases of $2,000. Extrapolating San Jose to the rest of California would add $8 billion to the wage bill in my state. Similarly, extending comparable worth to the federal civil service carries a price tag of $1.5 billion and to the entire economy over 50 billion dollars.

Comparable worth legislation receives much of its impetus from the perception that, after years of legislation, litigation, and lobbying efforts to improve women's opportunities in the labor market, very little has changed. In this view, the typical working woman continues to earn about 60 percent of what the typical working man earns and occupational segregation persists. I think that this perception is incorrect. With regard to wage differences, the apparent lack of progress is an artifact of changing labor market characteristics associated with the rapid growth in participation of women in the labor market. When these effects are stripped away, substantial wage progress is evident. More importantly, this progress is due to the accumulation of labor market experience by women, a trend that will continue in the foreseeable future.